

Op-Ed: The Republican tax plan's five worst dangers

By Robert E. Rubin November 15

The deficit-funded tax cuts advancing through Congress are a fiscal tragedy for which our country will pay a huge price over time. While the details of the tax plan remain in flux, its fundamental contours will not change. Nor will its \$1.5 trillion of deficit funding, the amount stipulated in the recently passed budget resolution.

Perhaps it's hopeless to expect those in Congress who have long bemoaned deficits and the debt to oppose the plan. If, however, as a matter of conscience or renewed reflection they decide to take heed, here are the fiscal dangers posed by the plan.

To start, the tax cuts will not increase growth and, given their fiscal effects, would likely have a significant and increasingly negative impact. The nonpartisan Tax Policy Center's latest report estimated that, over 10 years, the average increase in our growth rate would be roughly zero, counting the crowding out of private investment by increasing deficits but not counting other adverse effects of worsening our fiscal outlook. The Penn Wharton Budget Model, using the same approach, estimates virtually no increase in long-term growth. Goldman Sachs projects an increase of 0.1 percent to 0.2 percent in the first couple of years and an average increase over 10 years of just 0.05 percent per year, not counting any of the adverse fiscal effects.

These estimates reflect three underlying views held by mainstream economists. First, individual tax cuts will not materially induce people to work more. Second, corporate tax cuts will likely have limited effect on investment or decisions about where to locate business activity, given the many other variables at play. Third, deficit-funded tax cuts will have little short-term effect on growth, except perhaps for some temporary overheating, because we are at roughly full employment.

With no additional revenue from increased growth to offset the tax cuts' cost, the publicly held debt of the federal government would increase by \$1.5 trillion. An additional danger is that the actual deficit impact would be increased by abandoning the Congressional Budget Office's nonpartisan evaluation that has been used for decades by both parties in favor of partisan calculations by those pushing the tax cuts.

Adding \$1.5 trillion or more to the federal debt would make an already bad situation worse. A useful measure of our fiscal position is the ratio of publicly held government debt to economic output or gross domestic product, called the debt/GDP ratio. In 2000, the debt/GDP ratio was 32 percent. The ratio is now 77 percent. Looking forward, the CBO projects the debt/GDP ratio to be 91 percent in 2027 and 150 percent in 2047. After \$1.5 trillion of deficit-funded tax cuts, those future ratios have been estimated to increase to roughly 97 percent in 2027 and 160 percent in 2047. These estimates likely substantially understate the worsening of our fiscal

trajectory. That's because they do not account for the increasingly adverse effect on growth of the difficult-to-quantify effects of fiscal deterioration.

Exacerbating our already unsustainable fiscal trajectory with these tax cuts would threaten growth in five respects. These are highly likely to be substantial and to increase over time.

First, business confidence would likely be negatively affected by creating uncertainty about future policy and heightening concern about our political system's ability to meet our economic policy challenges.

Second, our country's resilience to deal with inevitable future economic and geopolitical emergencies, including the effects of climate change, would continue to decline.

Third, funds available for public investment, national security and defense spending — a professed concern of many tax-cut proponents — would continue to decline as debt rises, because of rising interest costs and the increased risk of borrowing to fund government activities.

Fourth, Treasury bond interest rates would be highly likely to increase over time because of increased demand for the supply of savings and increased concern about future imbalances. That, in turn, would raise private-sector interest rates, which could also increase due to widening spreads vs. Treasuries, further reflecting increased concern about future conditions. And even a limited increase in the debt/GDP ratio could focus attention on our fiscal trajectory's long-ignored risks and trigger outside increases in Treasury and private-sector interest rates. The ability to borrow in our own currency, and to print it through the Federal Reserve, may diminish these risks for a while, as might capital inflows from abroad. But these mitigating factors have their limits; at some point, unsound fiscal conditions almost surely would undermine our currency and debt markets.

Finally, at some unpredictable point, fiscal conditions — and these market dynamics — would likely be seen as sufficiently serious to cause severe market and economic destabilization.

We have an imperative need to address our unsustainable longer-term fiscal trajectory with sound economic policies. Few elected officials want to face this fact, but, at the very least, they should not make matters worse. We can only hope that responsible elected officials will prevent this irresponsible tax plan from being adopted.